



Department
of Energy &
Climate Change

Initial Assessment of the Energy Delivery Landscape

March 2016

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URN 16D/040

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Executive Summary

Consumers are at the heart of Government's energy policy. DECC's delivery bodies or 'landscape' is one key part of delivering good consumer outcomes. DECC keeps its delivery landscape under review and completed an initial assessment in 2016. Whilst various improvements are possible, the retail consumer aspects of the landscape have been identified as a priority for development.

Separately, the Government has been considering the roles and functions of the economic regulators, including Ofgem, with a view to ensuring that competition is promoted wherever possible for the benefit of consumers¹.

The Government has agreed with Ofgem that E-Serve's delivery functions (that cover many of the consumer schemes initiated by DECC) should separate from Ofgem. This separation is subject to implementation by primary legislation.

DECC will set out the shape of the new delivery landscape in autumn 2016. This will include the future of the delivery functions currently undertaken by Ofgem E-Serve, the separation of which will allow the regulator to focus on its core duties.

In the longer term, after any changes to DECC's consumer delivery landscape, DECC may also review wider delivery approaches in the context of the Competition Markets Authority review.

¹ A better deal: Boosting competition to bring down bills for families and firms, November 2015
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/480797/a_better_deal_for_families_and_firms_print.pdf

Initial Assessment of the Delivery Landscape

Background

DECC has looked regularly at the effectiveness of delivery of its policies and schemes since the changes made as part of the 2011 Delivery Review².

Since the 2015 Spending Review, DECC has assessed its overarching delivery landscape. It concluded that “consumer” facing delivery, rather than generation and market facing or legacy payment and liabilities bodies, should be the focus for development. This is in line with DECC’s priorities as set out by the Secretary of State in November 2015 which put a focus on a “consumer-led, competition focused energy system that has energy security at the heart of it and delivers for families and businesses”.

By focusing on consumer coherence, DECC will therefore seek to ensure the system works for consumers, supporting them to take control of their energy bills by being able to access DECC’s schemes more easily.

Separately, the Government has been considering the roles and functions of the economic regulators, including Ofgem, with a view to ensuring that regulators are focussed on the core function of economic regulation and promoting competition for the benefit of customers.

The Government has considered the future of the delivery functions currently undertaken by Ofgem E-Serve and believes that separating E-Serve functions from Ofgem will allow the regulator to focus on its core duties. This will require implementation by primary legislation.

Additionally, in July 2015, DECC and DCLG jointly commissioned Dr. Peter Bonfield to undertake an independent review into consumer advice, protection, standards and enforcement for energy efficiency and renewable energy. The review which is due to report shortly will make recommendations regarding the way in which the existing consumer journey for the installation energy efficiency and renewable energy technologies can be improved to provide greater trust and certainty for the consumer. A wide range of external partners are involved in the review and its recommendations will be important for DECC’s work on the Energy Delivery Landscape.

The Delivery Landscape

DECC has a mixture of delivery partners and contracts for its domestic and non-domestic consumer schemes. This mixed group of public and private organisations is referred to as DECC’s delivery landscape.

There are now around twenty public and private organisations involved in delivering around thirty schemes and policies. In total, it costs around £40M pa³ for these bodies to deliver DECC’s schemes.

The kinds of task they do include:

- Assessing applications for eligibility of schemes

² Review of DECC’s delivery landscape May 2011

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48075/1656-delivery-review.pdf

³ Cost data collated in 2015 and represented a forecast, approximate annual spend for FY 15/16

- Updating and maintaining public registers, lists and accreditations
- Managing payments to users of the schemes
- Ensuring scheme compliance, managing enforcement sanction and fraud
- Providing information and advice to consumers.

Examples of some of DECC's delivery partners include:

- E-Serve (Ofgem's delivery arm) which delivers the Renewable Heat Incentive, Renewables Obligation, Feed-in tariffs, Energy Company Obligation and Warm Home Discount.
- The Environment Agency which delivers the majority of DECC's consumer facing regulatory schemes with respect to business, including the Energy Saving Opportunity Scheme, the CRC Energy Efficiency Scheme and the EU Emissions Trading System.
- Salix – which receives grant funding from DECC to provide interest free loans in England to public sector organisations to fund the capital cost of energy efficiency retrofit work.

DECC also contracts delivery of some services: the Energy Saving Advice Service, Energy Technology List Helpline, Green Deal Oversight and Registration Body and Green Deal Register.

Aims of a Reformed Delivery Landscape

This landscape continues to change and evolve. The range and number of partners makes it more difficult for the Department to have certainty that programme delivery is coherent, efficient and provides overall value for money. And while successful in certain parts, there are overarching concerns regarding how well it serves the needs of consumers. Furthermore DECC does not have any delivery partner which Ministers can direct without legislation to take on a programme delivery role.

DECC has looked at case studies of high performing flexible delivery agencies in the public sector to identify the features for a reformed delivery model.

There are three objectives for reform of the delivery landscape:

- Objective 1: **Improved financial efficiency, flexibility and transparency**: efficiency savings and improved value for money through 1) bringing together of similar functions undertaken by delivery partners 2) increased transparency and governance control over DECC's programme budget allowing greater flexibility over financing of scheme administration.
- Objective 2: **Improved coherence for customers**: a simpler and more effective delivery landscape for final consumers of DECC's policies and the supply chain.
- Objective 3: **Improved delivery flexibility and potential to innovate**: Flexibility is essential and must include the ability to respond to changes in DECC's policies, for example to realise synergies between schemes. Flexibility may also include requirements to innovate, determine and pilot delivery approaches and work with the supply chain. Suitable expertise is required to support this level of flexibility.

Phasing of Work

As part of work to improve consumer outcomes, DECC is taking forward a four year programme to reform the delivery of DECC's consumer facing programmes (for households, businesses and the public sector).

DECC's initial analysis has narrowed the scope of organisations and schemes to be included in the first phase of the programme, focussing on the partners providing the majority of services and other long running schemes.

During the initial phase of this work, DECC will focus on the separation of E-Serve's functions from Ofgem subject to timing of legislation. E-Serve is DECC's biggest single consumer delivery partner (see above). DECC will now take forward work to determine how these functions will be delivered in the future. DECC expects to consult on the approach and make changes through legislation once a suitable Bill is identified. This also provides an opportunity to improve consumer experience with respect to DECC's schemes and may create an opportunity for further efficiency savings.

DECC will also be looking at reducing the number of delivery bodies and contracts by consolidating delivery capabilities and skills within DECC and in DECC's network of delivery partners, by removing duplication as existing contracts expire, although this does not necessarily mean a single provider. In addition DECC will be looking for opportunities to merge the back office functions behind some of these organisations and to deliver some incremental improvements as quickly as possible (see example below).

Example of E-Serve working with Low Carbon Contracts Company

A good example of collaboration between delivery partners is the assistance Ofgem E-Serve is providing to the Low Carbon Contracts Company (LCCC). During the development of Contracts for Difference (CFD) it became clear that much of the expertise required by LCCC to ensure certain fuel measurement and sampling (FMS) and sustainability obligations in the CFDs were met already resided in Ofgem E-Serve.

Ofgem E-Serve had developed this unique skill set through their administration of the Renewables Obligation (RO). Rather than duplicate this capability within the LCCC, both organisations agreed to work together and utilise Ofgem E-Serve capabilities to meet LCCC obligations in the CFD. Not only did this provide greater value for money for consumers, but it also ensured a consistency of approach for generators operating under both the CFD and RO.

DECC is also exploring options to give consumers a proactive, simple experience with a single route to access all DECC's consumer-facing schemes, using a best-value digital platform. This work is subject to further analysis.

DECC expects to report its plans for the energy delivery landscape by Autumn Statement 2016 and make any further structural changes following this.

Changes to Market Delivery

While the focus of the energy delivery landscape review is rightly on consumers, there are also changes under consideration to ensure that the market continues to operate competitively and efficiently. These changes will ensure the market structures create a level playing field that can respond flexibly and at pace to the ongoing challenges in keeping our energy system secure.

In the first instance, the government welcomes the National Infrastructure Commission's energy study. It highlights the opportunity to transform the future of the UK's electricity sector, saving consumers up to £8bn a year. We will implement its recommendations in full.

Furthermore, DECC believes there is a strong case for greater independence in the system operator. National Grid, as system operator, has played a pivotal role in keeping the energy market working, but as our system changes, it must be as productive, secure and cost effective as possible. DECC is therefore working with National Grid, Ofgem and others to consider how to reform the current system operator model to ensure a competitive market with government out of the way, as much as possible by 2025.

The Competition and Markets Authority, as part of their energy market investigation, have recommended reform of the governance arrangements for energy industry codes. Working with Ofgem, DECC intend to develop arrangements that facilitate innovation and make it easier for new and smaller energy market participants to engage in the process.

These developments will ensure DECC has an energy delivery landscape that is fit to meet the challenges of a dynamic 21st century energy system.

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URN16D/040